



The Solutions Network

Rochester, New York

VA Enhanced-Use Leasing in Practice

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August 9, 2004

VA Enhanced-Use Leasing



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 - VA's Past Experience
 - Mountain Home, TN
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VA Enhanced-Use Leasing



- What is Enhanced-Use leasing (EUL)?
 - EUL permits VA to invest underutilized VA land, buildings and other resources to improve services, provide needed facilities or generate new revenues
 - Opportunities structured to minimize risk, limit obligations and maximize value of VA capital assets

VA Enhanced-Use Leasing



- How does EUL work?
 - VA makes cooperative arrangements with public or private partner
 - VA executes long term out-lease of land and / or buildings (up to 75 years)
 - In return, VA:
 - Obtains services, facilities, revenue or other in-kind considerations
 - Converts under-performing capital assets into productive assets

VA Enhanced-Use Leasing



- Enhanced-Use Lease Project Process

Project-specific Concept Plan to secure internal approval

Public Hearing to assure input from veterans and the community

Selection process ensures procurement integrity through full and opened competition

"Significant" projects require U.S. Office of Management and Budget (OMB) review

Congressional Notification

VA Enhanced-Use Leasing



- Original Financing Parameters
 - Owner trust structure
 - Selected developer forms Owner Trust (single purpose entity)
 - VA sole beneficiary
 - Lease and energy services agreement between VA and the Owner Trust
 - Development and management agreements between developer/operator and Owner Trust
 - Owner Trust holds title to improvements to end of lease term
 - End of lease term; improvements revert to VA

VA Enhanced-Use Leasing



- Mountain Home Energy Center



- Located in Johnson City, TN
- First VA co-generation facility procured via EUL
- Online June 2001
- Reason for EUL: Replace aging outdated energy plant and reduce energy costs

VA Enhanced-Use Leasing



- Mountain Home Energy Center
 - VA Contributed
 - 35-year outlease of 2 acres of property valued at \$300,000
 - The Deal
 - Developer/Operator to construct, operate and maintain state-of-the-art energy center
 - Developer to accomplish \$3.0 M of energy conservation measures throughout the campus
 - VA Commitment to buy electric and thermal energy via automatic renewable 2-year energy service agreements, contingent upon
 - Annual appropriations
 - Continued operation of VA medical center (VAMC)

VA Enhanced-Use Leasing



- Mountain Home Energy Center (cont'd)
 - Benefits to VA
 - Reduced energy consumption and costs
 - \$11.6 M NPV non-recurring cost savings
 - » First 25 years-2004 dollars
 - \$27.3 M in discounted life-cycle costs
 - » First 25 years - 2004 dollars
 - Capital cost avoidance
 - \$25.0M
 - Reliable energy - with 100% backup
 - Projected Revenue
 - \$1 M from non-VA energy sales

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- North Chicago Energy Center



- Located in North Chicago, IL
- Phase I - online October 2003
- Phase II - projected online February 2005
- Reason for EUL: Reduce energy costs and eliminate dependence on others' thermal resources

VA Enhanced-Use Leasing



- North Chicago Energy Center
 - VA Contributed
 - 35-year outlease of 1 acre of property valued at \$100,000
 - The Deal
 - Developer/Operator to construct, operate and maintain state-of-the-art energy center
 - VA Commitment to buy electric and thermal energy via 2-year energy service agreements, contingent upon
 - Annual appropriations
 - Continued operation of VAMC
 - Renewal contingencies

VA Enhanced-Use Leasing



- North Chicago Energy Center (cont'd)
 - Benefits to VA and other federal departments
 - Reduced energy consumption and costs to VA
 - \$44.2 M in discounted non-recurring costs
 - » First 25 years - 2004 dollars
 - Capital cost avoidance to VA
 - \$25.0M
 - Reliable energy - with 100% backup
 - Provides electric and thermal to new Navy barracks complex located on VA land
 - Projected Revenue
 - \$5 M from energy sales to non-Federal customers

VA Enhanced-Use Leasing



- Chicago Westside Energy Center



- Located in Chicago, IL
- Online November 2003
- Reason for EUL: Reduce energy costs and eliminate dependence on other thermal resources

VA Enhanced-Use Leasing



- Chicago Westside Energy Center
 - VA Contributed
 - 35-year outlease of 1 acre of property and existing facility valued at \$200,000
 - The Deal
 - Developer/Operator to construct, operate and maintain state-of-the-art energy center
 - VA Commitment to buy electric and thermal energy via 2-year energy service agreements, contingent upon
 - Annual appropriations
 - Continued operation of VAMC
 - Renewal contingencies

VA Enhanced-Use Leasing



- Chicago Westside Energy Center (cont'd)
 - Benefits to VA
 - Reduced energy consumption and costs to VA
 - \$32.7 M in discounted non-recurring costs
 - » First 25 years - 2004 dollars
 - Capital cost avoidance to VA
 - \$12.5M
 - Reliable energy - with 100% backup

VA Enhanced-Use Leasing



- Lessons Learned
 - Need to incorporate mechanism to ensure developer has an incentive to purchase commodities as economically as possible
 - Impose performance measures for developer/operator
 - Include language delineating responsibilities of developer for operating plant at maximum efficiency
 - Need to allow additional energy conservation measures to be implemented easily

VA Enhanced-Use Leasing



- Lessons Learned (cont'd)
 - Increase incentives and requirement for private third party sales
 - Developer to be responsible for conducting due diligence covering:
 - Regulatory requirements (e.g., interconnection, sales to grid and/or third parties, state public utility requirements)
 - Environmental permitting and emissions
 - Other state and local siting and permitting requirements

Enhanced-Use Leasing



- What's Next - New Parameters
 - Trust arrangement previously employed no longer feasible
 - OMB views original trust structure arrangement as not in compliance with current A-11 requirements
 - Per OMB A-11, public-private venture must now feature a non-Federal partner who:
 - Has a majority ownership share of the partnership and its revenues
 - Contributes at least 20% of the total value of the assets owned by the partnership
 - LLC structure a potential alternative
 - Proposed - VA interest to be minority, non-economic

VA Enhanced-Use Leasing



- What's Next
 - VISN 4 Energy Co-Generation Centers
 - Pittsburgh, PA* (University Dr. and Heinz)
 - Coatesville, PA
 - Philadelphia, PA
 - Wilkes Barre, PA
 - Feasibility studies - completed
 - Financing - Pooled
 - RFP Issuance - Soon

** Two Medical Centers in Pittsburgh*

VA Enhanced-Use Leasing



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QUESTIONS?